

# Organization for Promoting Urban Development (General Incorporated Foundation)

<http://www.minto.or.jp/>

## 1. Summary of operations implemented using FILP funds

The Organization for Promoting Urban Development provides mezzanine support for facilitating the provision of middle-risk funds for longterm private sector urban development projects, contributing to the advancement of urban functioning and the improvement of urban living environments, and steadily promoting excellent private sector urban development projects that feature great direct and spillover effects of investment.

## 2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
30.0	68.8

## 3. Estimated policy cost analysis of the project

### (1) Policy cost (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-2.9	-4.3	-1.4
3. Opportunity cost of capital investments, etc.	0.2	0.3	+0.1
<b>Total (1+2+3=policy cost(A))</b>	<b>-2.7</b>	<b>-4.0</b>	<b>-1.3</b>
Analysis period (years)	15 years	21 years	+6 years

### (2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	-2.7	-4.0	-1.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	-	-	-
2) Policy cost expected to be newly accrued during the analysis period	-2.7	-4.0	-1.3
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-2.9	-4.3	-1.4
Opportunity cost of surplus, etc.	0.2	0.3	+0.1
Opportunity cost of capital investments, etc.	-	-	-

### (5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
			-4.0	-5.6	-1.7

### (3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2019	FY2020	Simple fluctuation
		Simple comparison (before adjustment)	-2.7	-4.0
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)	Real fluctuation (2-1)
		1.7	-2.7	-4.3

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to finalization of FY2018 results and revision of FY2019 projections (+2.0 billion yen)
- Increase in cost due to increase in loan losses (+2.0 billion yen)
- Others (increase in administrative cost due to analysis period extension, etc.) (+0.7 billion yen)

○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2020 (-9.0 billion yen)

### (4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2020 (previously cited)	-4.0
1) Prepayments	-
2) Loan losses	3.8
3) Others (including profit spread)	-7.8

(Note) Components in each column may not add up to the total because of rounding.

\*1 Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

\*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

#### 4. Outline of estimation and project prospect employed in the analysis

[Outline of estimation]

- 1) The estimation covers the mezzanine support project among the operations of the Organization for Promoting Urban Development.
- 2) The analysis covers the 21-year period during which all loans and bonds under the FY2020 plan will be redeemed.
- 3) No prepayment is projected in the absence of past data for the mezzanine support project.
- 4) Loan charge-off is calculated based on default ratios obtained from private sector rating agencies, since mezzanine support aims to provide middle-risk funds.
- 5) The Organization for Promoting Urban Development is a general incorporated foundation, so the mezzanine support project is subject to the imposition of corporate tax and interest income tax. Therefore, the estimation covers the tax amount in each fiscal year until the fiscal year when the project is completed.

#### 5. Reasons for granting of subsidies, mechanism and underlying laws

The Organization received subsidies from the general account in FY2011 for recapitalization to stably conduct mezzanine support operations over the long term.

(Underlying laws and regulations)

[Provisions on capital]

- Outline of the urban revitalization promotion system Article 14-5, National aid

The government can grant a subsidy necessary to allowance deposit of support operations for private sector urban development projects within a budget.

[Provisions on payments to the Government]

- Outline of the urban revitalization promotion system Article 14-6

Implementation of support operations for private sector urban development projects

Paragraph 1~2 (omitted)

Paragraph 3

Organization for Promoting Urban Development must pay to the national treasury the balance of allowance deposit of support operations for private sector urban development projects when Organization for Promoting Urban Development abolishes mezzanine support operations.

#### 6. Special remarks

Organization for Promoting Urban Development was shifted from an incorporated foundation to a general incorporated foundation on April 1, 2013, approved by the Prime Minister pursuant to the provisions under Article 45 of the Act on Revising Related Acts in accordance with the Implementation of the Act on General Incorporated Associations and General Incorporated Foundations and the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundation.

#### (Reference) Outcome and social and economic benefits of operations

I. Support results etc.

- (1) Support results (8 matters): 69.6 billion yen
- (2) Planned support in FY2020: 40.0 billion yen

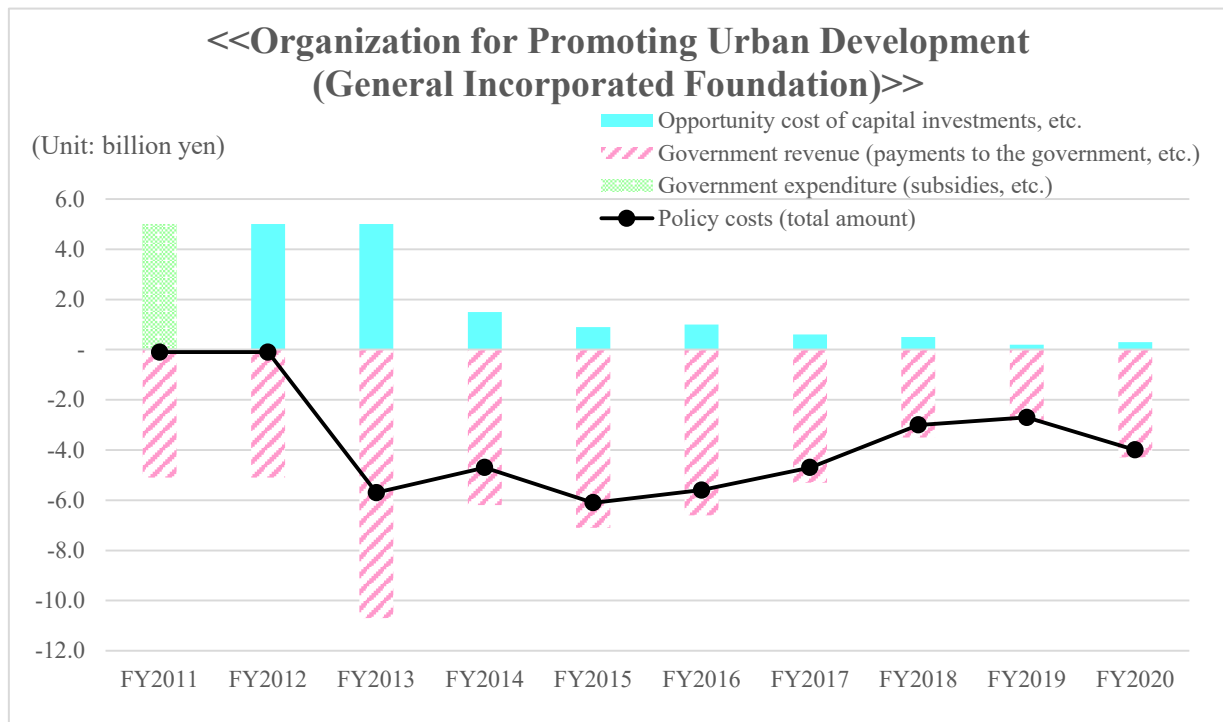
II. Primary types of financing for social and economic benefits

Mezzanine support project's demand creation effect (FY2020): About 897.1 billion yen

Economic effect of FILP project investment (FY2020): About 2,256.8 billion yen

# Overview of policy cost analysis results

## [Changes in policy costs]



### Notes

1. Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.
2. Figures until FY2012 indicate the policy cost of Organization for Promoting Urban Development (Urban Renaissance Promotion Account).

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	-0.1	-0.1	-5.7	-4.7	-6.1	-5.6	-4.7	-3.0	-2.7	-4.0
Government expenditure (subsidies, etc.)	5.0	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-5.1	-5.1	-10.7	-6.2	-7.1	-6.6	-5.3	-3.5	-2.9	-4.3
Opportunity cost of capital investments, etc.	-	5.0	5.0	1.5	0.9	1.0	0.6	0.5	0.2	0.3

### 【Explanation of policy cost trends】

• In accordance with the change of the Organization for Promoting Urban Development to a general incorporated foundation on April 1, 2013, the mezzanine support project that was covered by the estimation became subject to the imposition of corporate tax and interest income tax. Therefore, money transferred to the government has increased since FY2013, resulting in the policy costs having been substantially decreased. Since then, negative costs have been leveling off or increasing in line with the shrinking business size.

### 【FILP agency's self-assessment of policy cost analysis results (FY2020)】

- Although the loan loss cost increased from the previous year, the profit margin expanded to absorb the cost hike. As a result, the policy cost amount decreased by 1.3 billion yen from the previous year and by 4.3 billion yen in the past year comparison, indicating a rise in profitability.
- In the sensitivity analysis, the policy cost amount increased by 1.7 billion yen from the case before the negative interest rate policy, indicating the deterioration of profitability. The cost hike might have been attributable to a decline in payments (including tax) to the Government through changes in profit on investment of surplus funds and the profit margin. Given these points, the impact of interest rate differences on financial conditions is not necessarily small.
- The policy cost estimation indicated no problematic events, meaning that financial soundness has been secured.

## (Reference) Financial Statements

## Balance Sheet (Mezzanine Support Project)

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
<b>(Assets)</b>				<b>(Liabilities)</b>			
Current assets				Current liabilities			
Cash and deposits	149	126	126	Accrued payments	14	-	-
Fixed assets				Accrued corporate tax, etc.	18	-	-
Specific assets				Reserve for bonuses	8	8	8
Allowance deposit of support operations for private sector urban development projects	5,026	5,030	5,035	Fixed liabilities			
Deposit for reserve for retirement benefits	44	37	37	Government-guaranteed borrowings	5,800	15,800	25,800
Loans for mezzanine support operations	44,600	84,600	124,600	Government-guaranteed bonds	38,800	68,800	98,800
Allowance for possible loan losses	-	- 3,355	- 5,249	Reserves for retirement pensions	44	37	37
Investments securities for mezzanine support operations	-	-	-	Total liabilities	44,684	84,645	124,645
Management preparation deposit fo mezzanine support operations	7,749	8,764	9,849				
Other fixed assets	2	2	2	<b>(Equity)</b>			
				Specified net asset	5,026	5,030	5,035
				General net asset	7,860	5,528	4,719
				Total equity	12,886	10,559	9,754
<b>Total assets</b>	<b>57,570</b>	<b>95,204</b>	<b>134,399</b>	<b>Total liabilities and equity</b>	<b>57,570</b>	<b>95,204</b>	<b>134,399</b>

Note: Components may not add up to the total because of rounding.

## Revenue and Expenditure Budget (Mezzanine Support Project)

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
<b>(Revenues)</b>				<b>(Expenditures)</b>			
Revenues from investment of provisions for private sector urban development projects	1	5	5	Management expenses	138	171	171
Revenue from mezzanine support operations	331	2,759	2,994	Mezzanine support expenses	2,009	40,085	40,075
Interest received	331	2,759	2,994	Mezzanine support project expense	2,000	40,000	40,000
Collection of loans, etc.	-	-	-	Mezzanine support research expense, etc.	9	85	75
Borrowings from private sector	2,000	40,000	40,000	Redemption of loans, etc.	-	-	-
Government-guaranteed bonds	2,000	30,000	30,000	Interest and bond issuance expenses	118	972	1,092
Government-guaranteed borrowings	-	10,000	10,000	Interest on bonds	104	630	724
Reversal income of specific deposits	7	7	-	Interest on loans, etc.	5	260	259
Miscellaneous revenues	25	29	5	Commission paid on bonds	9	82	109
				Specific deposit expenses	56	1,019	1,089
				Provisions for private sector urban development project support operations	0	4	4
				Reserves for mezzanine support operations	49	1,015	1,085
				Deposit for reserve for retirement benefits, etc.	7	-	-
				Taxes and dues	22	540	571
				Clerical mechanization expenses	5	5	5
<b>Total revenues</b>	<b>2,364</b>	<b>42,800</b>	<b>43,004</b>	<b>Total expenditures</b>	<b>2,348</b>	<b>42,791</b>	<b>43,003</b>
Balance brought forward	102	-	-	Balance	15	9	2
<b>Total revenues</b>	<b>2,465</b>	<b>42,800</b>	<b>43,004</b>	Balance to be brought forward	117	126	127

Notes: 1. Components may not add up to the total because of rounding.

2. Organization for Promoting Urban Development does not prepare an income statement because it is a general incorporated foundation and employs an accounting method based on the public interest corporation accounting standards.

(Reference) Hypothetical Balance Sheets and Hypothetical Profit and Loss Statements for Private Companies

Hypothetical Balance Sheet for Private Companies  
(Mezzanine Support Project)

(Unit: million yen)

Item	End of FY2018	Category	End of FY2018
(Assets)		(Liabilities)	
Current assets	8,250	Current liabilities	40
Cash and bank deposits	8,249	Accrued expenses	14
Accounts receivable	1	Accrued corporate tax, etc.	18
Fixed assets	49,320	Reserve for bonuses	8
Intangible fixed assets	2	Fixed liabilities	44,644
Software	2	Bonds	38,800
Investment and other assets	49,318	Long-term loans payable	5,800
Long-term loan receivable	4,718	Reserves for retirement pensions	39
Investment securities	44,600	Reserve for directors' retirement benefits	5
		(Total liabilities)	44,684
		(Equity)	
		Capital stock	12,732
		Capital surplus	11,500
		Other capital surplus	11,500
		Retained earnings	1,232
		Other retained earnings	1,232
		Retained earnings brought forward	1,232
		Valuation and translation adjustments	154
		Valuation difference on securities	154
		(Total equity)	12,886
Total assets	57,570	Total liabilities and equity	57,570

Hypothetical Profit and Loss Statement for Private Companies  
(Mezzanine Support Project)

(Unit: million yen)

Item	End of FY2018
Sales	
Interest received	336
Commission received	22
Costs of goods sold	
Interest expenses	109
Commission paid	9
Gross operating profit	240
Sales and administration expenses	159
Operating profit	81
Ordinary profit	81
(Extraordinary profits)	-
(Extraordinary loss)	-
Net profit before tax	81
Corporate tax, residence tax and enterprise tax	18
Net profit (or loss)	63

Note: Components may not add up to the total because of rounding.